



## Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts reported that ongoing labor and raw material shortages are holding back growth. Customer spending has been unchanged since the previous report. The rise in COVID-19 Delta variant cases was cited as a reason for increasing consumer wariness. Cost pressures remain high, with around half of firms reporting increased prices and additional increases anticipated. The residential real estate sector saw volumes slow slightly, but home and rental prices remained high. Despite high demand, new construction projects continued to be hampered by supply disruptions. Banks reported a slight decline in overall loan demand. Contacts remained optimistic, although less so than the last time they were surveyed in mid-May. On net, 11 percent of contacts expect economic conditions during the remainder of 2021 to be better or somewhat better than the same period one year ago.

### Employment and Wages

Employment has increased slightly since our previous report, though smaller firms reported more mixed trends. Worker scarcity was frequently cited as the limiting factor in firm growth; contacts reported a net decline in applicants per job since May. Firms struggled to hire and retain workers; contacts reported offering on-the-job training, sign-on and retention bonuses, and other benefits. Firms again presented mixed evidence that some states' discontinuation of federal UI enhancements affected their pool of applicants.

Wages have grown strongly, though small firm wages continued to rise more slowly. On net, 60% of contacts reported raising wages—well above historical values. One manufacturer reported attracting few workers despite increasing starting wages above \$17 per hour.

### Prices

Prices have increased moderately since our previous report. About half of contacts have increased prices to consumers this quarter. Half of contacts plan to increase prices to consumers in the near future. A regional boat dealer reported new boat prices have increased 10% on average since last year and will likely increase another 10% over the next year. Over two-thirds of contacts reported increased input costs, including robust year-

over-year increases specifically in the transportation and construction industries. Several construction contacts reported pausing some projects until the rapid increases in materials costs decline or stabilize. A contact reported that the price for concrete has increased about 20% over the past few months and the price for electric wire has rapidly increased. Contacts reported that lumber prices have recently declined. A contact in the auto repair industry reported price increases in the range of 30-60% for certain auto parts. A contact that sells electrical signs and billboards reported that prices for input materials such as polycarbonate, aluminum, steel, wood, and electrical parts are “skyrocketing.” A regional brewery reported that their supplier increased prices twice between order and delivery for a pallet of aluminum.

### Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity since our previous report. July real sales tax collections decreased slightly in Arkansas, Kentucky, and West Tennessee and increased in Missouri relative to June. General retailers reported mixed sales over the past six weeks. Auto dealers reported mixed sales, with continued high demand but low inventories and limited availability of low-cost units. Restaurants reported severe supply and staffing shortages. A St. Louis hotel contact reported that

business is slightly down relative to early July. In August, an outdoor concert venue in Arkansas held its first significant event since 2019. The venue was pleased with ticket sales but surprised only half of tickets were punched for entry, which they attributed to the rise in coronavirus cases.

### **Manufacturing**

Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest production, capacity utilization, and new orders have strongly increased. Production continues to be below operating capacity due to labor shortages, and retailer order windows have lengthened as a result. Worker scarcity has also led to issues in quality control, with surges in retail returns and auto repairs due to product defects. Firms have increased their focus on technological innovation to increase labor productivity and product quality. On average, firms reported they expect strong increases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has been mixed since our previous report. Airport passenger traffic has increased slightly since our previous report. Several large health care providers have increased their minimum pay rates for workers. Nursing shortages have been an issue as COVID cases rise. A hospital contact reported increased cancelations of elective procedures. Several contacts reported increased transportation costs; a distribution contact noted that it has been difficult to find trucks and hire new drivers. A health and wellness contact noted that COVID concerns continue to hurt business. A large public university in Arkansas reported record enrollment this fall due to a large freshman class and increased graduate student enrollment.

### **Real Estate and Construction**

Residential real estate activity has decreased slightly since our previous report, with some contacts reporting the residential market is cooling off. Total home sales have dipped slightly, and available inventory has increased. Home prices and median days on the market remain stable. Most contacts expect the market to improve slightly or remain roughly the same in the next quarter. Demand for multifamily homes increased and is expected to continue. Rental prices continue to increase across the District. The overall average rent in Memphis is up 17% since last year. A contact in St. Louis observed that the eviction moratorium has prevented landlords from removing problem tenants with past due rent.

Commercial real estate activity has remained mixed

since our previous report. Demand for and speculative building of industrial properties continued to increase, while the office and retail markets remain mixed. Industrial property inventories remained high in Memphis and Little Rock. While demand for new industrial properties remains elevated, supply chain issues, increased prices for building materials, and labor shortages are preventing projects from continuing. One contact reported that steel joists ordered now will not arrive until roughly the middle of the second quarter of 2022. Some contacts report that previously planned projects are being put on hold or cancelled due to these problems.

### **Banking and Finance**

Banking conditions have been unchanged since our previous report. Banking contacts reported a slight decrease in overall loan demand since the past survey period. Auto loan demand declined modestly and demand for credit cards fell moderately. But contacts noted a continued modest growth in real estate lending. Creditworthiness improved slightly in mortgage and commercial and industrial lending. Delinquency rates also declined modestly across all major loan types and credit standards remained largely unchanged. District banks reported that about three-quarters of PPP loans have been forgiven. Outlooks were positive, although the spread of the Delta variant has increased uncertainty.

### **Agriculture and Natural Resources**

Agriculture conditions have remained unchanged from our previous report. Relative to early July, the percentage of corn and soybeans rated fair or better has decreased slightly while the percentage of rice increased slightly and cotton experienced no change. Contacts indicated that both nonlabor and labor costs have increased but income is up as well. One contact noted the drought in South America has raised grain prices. They also noted COVID-related shortages of maintenance parts.

Natural resource extraction conditions fell slightly from June to July, with seasonally adjusted coal production decreasing just under 2%. But production is up 14% from a year ago.

## Highlights by Zone

The *Beige Book* report provides an overview of economic conditions in the Eighth District based on information received from business contacts. Because aggregating zone data to the District level sometimes masks variations in conditions within the District, the summaries below are by zone: The headquarters office is in St. Louis and the branch offices are in Little Rock, Louisville, and Memphis.



### Little Rock Zone

Economic conditions in the Little Rock zone have continued to improve at a moderate pace since our previous report. A retail contact noted that tourism activity has exceeded their “conservative” estimates and even surpassed 2019 numbers. However, contacts noted some pullback in service sector activity due to the rise in COVID cases and hospitalizations.

A medical device contact noted a significant slowdown in pharmaceutical drug development given the focus on COVID vaccines and testing continues to restrain activity.

Agriculture contacts reported significant challenges finding seasonal workers for harvest. Firms are primarily relying on immigrant workers with temporary visas, but there are shortages due to the pandemic.

Real estate contacts reported difficulties obtaining construction materials and that hiring workers has slowed the pace of home building. A construction contact noted that building materials, when available, cost two or three times more than a few months ago.

The overall outlook among contacts is slightly optimistic but has deteriorated since mid-May. On net, 7% of contacts expect regional economic conditions during the remainder of 2021 to be better than the same period in 2020.

### Louisville Zone

Economic conditions in the Louisville zone have improved at a moderate pace since our previous report. A hospitality contact noted that strong leisure travel in recent months has offset some of the losses from the lack of business travel. However, restrained business travel during the remainder of 2021 will likely mean losses for many hotels.

There were widespread reports of material shortages. A transportation contact noted that global supply chain issues related to electronics is holding back truck production. An HVAC contact reported that higher equipment and material prices and a general lack of inventory are the greatest obstacles to growth. A construction contact reported that material lead times are about six times longer than normal and prices remain highly volatile. A retail contact noted that replacement of new merchandise has been slow due to international production and shipping delays.

A community college contact reported that enrollment for the current year is down significantly, particularly for in-person learning, with a notable spike in students dropping classes as COVID cases have risen in recent weeks. A youth mentoring program reported a significant increase in demand for programs servicing low-income students and parents.

A technology services firm reported that sales have fallen short of expectations. The firm attributed this slowdown to businesses investing significantly more than they expected in 2020 and postponing or eliminating planned upgrades until remote work arrangements are settled.

The overall outlook among contacts is slightly optimistic but has deteriorated since mid-May. On net, 5% of contacts expect regional economic conditions during the remainder of 2021 to be better than the same period in 2020.

### **Memphis Zone**

Economic conditions in the Memphis zone have continued to improve at a moderate pace since our previous report. Many contacts noted severe labor shortages, attributing them to government benefits and COVID-related fears. A community bank contact noted less loan demand than expected and rising concerns about loan delinquencies.

Area auto dealers reported that sales activity has softened from a combination of slowing demand and lack of inventory. Used car prices have come down a bit in recent months but remain elevated relative to one year ago. General retail contacts also reported slowing sales, which is typical for this time of the year, but some also attributed it to the rise in COVID cases. Retailers also reported worsening supply chain issues and concerns about availability of inventory, particularly as they prepare for the holiday season.

A food container manufacturer noted that demand for products remains very strong and customers continue to purchase as if items will not be there next week, just as in the spring of 2020.

A commercial real estate contact noted that customers have become tentative and deals are moving slower. Demand for warehouse space remains robust.

The overall outlook among contacts remains optimistic but has deteriorated slightly since mid-May. On net, 24% of contacts expect regional economic conditions during the remainder of 2021 to be better than the same period in 2020

### **St. Louis Zone**

Economic conditions in the St. Louis zone have improved at a moderate pace since our previous report. Tourism and hospitality contacts noted that the national coverage of Missouri as a COVID hotspot reduced out-of-state visitors and reduced planned business travel. Fitness centers noted that the rise in the Delta variant and reimposing masking requirements led to a notable slowdown in activity.

A regional museum contact noted that the number of visitors remains about 50% lower than previous years. Conversely, an outdoor venue contact reported that attendance is only below pre-pandemic levels due to their capacity restrictions, but higher spending per visitor has pushed revenue above pre-pandemic levels.

A food and beverage supplier noted that sales have exceeded expectations overall, with sales to entertainment venues particularly strong. In contrast, sales to sporting venues have fallen short of expectations. A regional ice cream shop contact also noted that sales have fallen short of expectations.

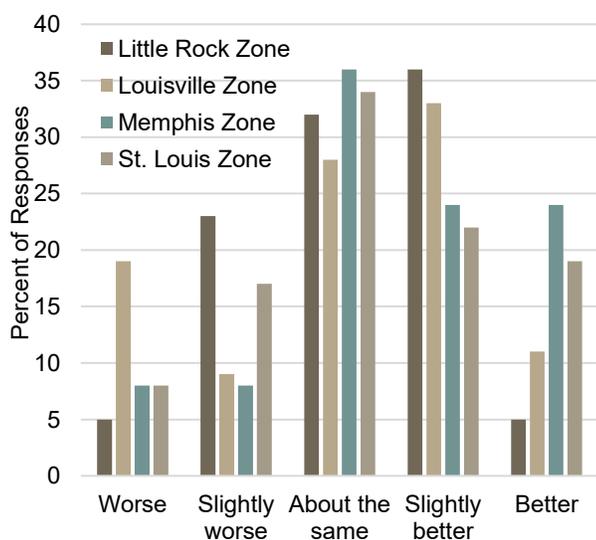
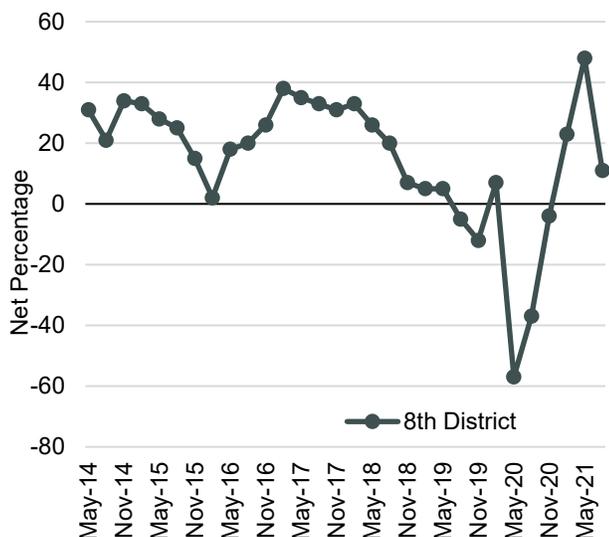
A retail contact noted that staffing and supply shortages have not only restrained sales but significantly impacted customer perceptions. The contact noted that in 2020 customers were sympathetic to the difficulties, but are now expressing impatience and negativity in reviews without acknowledging the same issues persist in 2021.

The overall outlook among contacts remains optimistic but has deteriorated since mid-May. On net, 13% of contacts expect regional economic conditions during the remainder of 2021 to be better than the same period in 2020. ■

## Supplemental Data and Survey Results

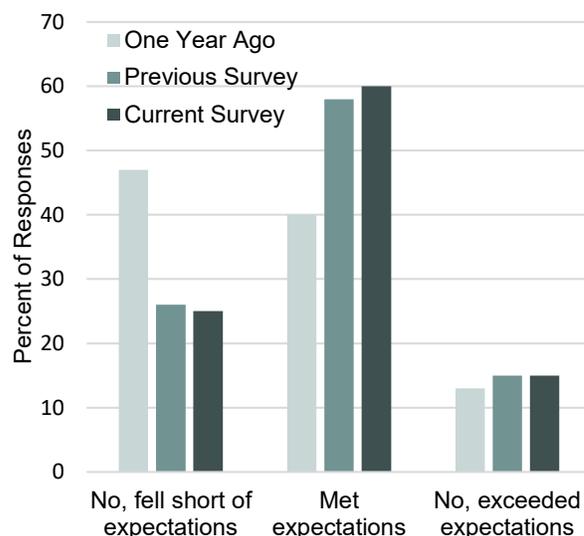
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 2 and August 13. The previous survey was conducted between May 3 and May 14. The following are selected results from those surveys.

### How do you expect local economic conditions to change during the remainder of this year?



Note: Interactive versions of these charts can be found at: <https://research.stlouisfed.org/publications/regional/beige-book>.

### Have sales at this point in the current quarter met expectations?



### How do you expect each of the following measures to change at your firm relative to the same time last year?

	Previous Survey	Current Survey
Prices Charged to Customers	28%	39%
Sales (Dollars)	34%	36%
Inventory	-4%	-5%
Nonlabor Costs	41%	49%
Capital Expenditures	14%	26%
Labor Costs	41%	59%
Wages	46%	60%
Hours per Employee	22%	31%
Employment	11%	13%

Notes: Values are reported as the net percentage of respondents reporting increases. Responses are weighted as follows: *increase* (+1), *slightly increase* (+0.5), *decrease* (-1), and *slightly decrease* (-0.5). Values greater than zero indicate a net increase from one year ago, while values less than zero indicate a net decrease from one year ago.

## Disclaimer

This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

## Frequently Asked Questions

### What is The Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

### How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

### How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

### Where can I find other Federal Reserve District Reports?

All current and past versions of the Beige Book are available on the Federal Reserve Board of Governors website: [www.federalreserve.gov/monetarypolicy/beigebook/](http://www.federalreserve.gov/monetarypolicy/beigebook/).

### What is the Eighth Federal Reserve District?

The Federal Reserve Bank of St. Louis is the headquarters for the Eighth Federal Reserve District, also known as District 8H. With Branches in Little Rock, Louisville, and Memphis, the District serves approximately 14.8 million people in the four zones that span all of Arkansas and parts of the six states of Missouri, Mississippi, Tennessee, Kentucky, Indiana, and Illinois.

The Federal Reserve Bank of St. Louis is one of 12 regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System—the nation's central bank. The St. Louis Fed and the other regional Reserve Banks help formulate monetary policy, supervise and regulate banks and bank holding companies, and provide financial services to depository institutions and the federal government.

## Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts. If you're interested in becoming a member of our panel, follow this link to complete a trial survey:

[bit.ly/stlecon](https://bit.ly/stlecon)

Or email us at [beigebook@stls.frb.org](mailto:beigebook@stls.frb.org).

### For more information, contact the St. Louis office:

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